Van Der Hout Associates Limited

1976

Annual Report

CORPORATE DIRECTORY

OFFICERS:
JOHN B. VAN DER HOUT
Chairman
SVERRE E. LUNDER
President
DAVID L. KOONTZ
Executive Vice-President
BARRY S. ARBUS
Secretary
GEORGE B. BYARS
Controller

DIRECTORS:
BARRY S. ARBUS
Partner, Lyons and Arbus, Solicitors
RICHARD B. BLACK
Chairman and President, Maremont Corporation
ROY A. EDWARDS
Vice-President, Aftermarket Sales
JOE B. FREEMAN
Senior Vice-President, Maremont Corporation
K. GORDON GREEN
Vice-President, Corporate Finance,
Morgan Stanley Canada Limited
SVERRE E. LUNDER
President
JOHN B. VAN DER HOUT
Chairman
ALBERT E. WOODS
Retired Banker

HEAD OFFICE:
3600 Lakeshore Blvd. West
Toronto, Ontario M8W 1N8

TRANSFER AGENTS:
Guaranty Trust Company of Canada
Toronto

AUDITORS:
Laventhol & Horwath
Chartered Accountants
Toronto
Arthur Andersen & Co.
Chartered Accountants
Toronto

LISTED:
Toronto Stock Exchange

HIGHLIGHTS

	1976	1975 *(As Restated)
SALES	$30,745,661	$26,791,291
NET EARNINGS (LOSS)	$ (858,032)	$ 1,336
EARNINGS (LOSS) PER SHARE	$ (.51)	–
NUMBER OF SHARES OUTSTANDING	1,681,608	1,681,608
NUMBER OF REGISTERED SHAREHOLDERS	1,042	1,100
SHAREHOLDERS' EQUITY	$ 9,356,090	$10,214,122
BOOK VALUE PER SHARE	$ 5.56	$ 6.07

**See Note 2*

To Our Shareholders:

The year 1976 was a disappointing one for Van Der Hout Associates. Although sales increased to $30,746,000 compared to $26,791,000 in 1975, a net loss of $858,032 was incurred this year compared to a restated net income of $1,336 in 1975.

The Company's largest unit, the Shock Absorber Division, sustained an operating loss. A significant contribution to the loss was the current bumper energy absorber contract, which will be completed in mid-1977. The untimely turnover of key personnel made the problem more troublesome. The severity of the operating problems tends to overshadow the solid gains made in sales. Several new customers were gained while no customers were lost.

The Exhaust Division continued to be profitable in 1976, achieving gains in both sales volume and profits.

The Orangeville Division, comprised of several automotive specialty subsidiaries, incurred an operating loss. No offsetting tax recovery was provided against the loss of two of the subsidiaries.

During the third quarter, management became aware of an error, which arose in prior years, in the computation of the value of some of its work-in-process inventories. Management employed a second audit firm to perform a joint audit with the firm which was appointed by the shareholders. A thorough review and evaluation was made of the Company's financial records and accounting policies. The evaluation resulted in corrections to the Company's inventory and income tax liability accounts and a corresponding reduction in the Company's December 31, 1975 retained earnings of $1,069,000, including the adjustment made in the third quarter. In addition, the Company made two changes in accounting policy, the result of which was to reduce the Company's December 31, 1975 retained earnings by $252,000. See Note 2 to the consolidated financial statements for a more detailed explanation.

In response to these operating problems, management has made extensive changes in both organization and operating procedures. Also, there have been significant reductions in selling and general and administrative expense since the first of the year. The Orangeville Division is being restructured organizationally and further actions are being evaluated.

Management believes that the Company's principal businesses are fundamentally sound and that the Company can, within a reasonable period of time, return to an acceptable profit level.

On behalf of the Board,

JOHN B. VAN DER HOUT,
Chairman.

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31 1976	1975 (As Restated) (Note 2)
Sales	$30,745,661	$26,791,291
Cost of sales	25,568,911	21,475,746
Gross profit	5,176,750	5,315,545
Expenses:		
Selling, general and administrative expenses	5,702,925	4,643,187
Interest on long-term debt	85,542	100,274
Other interest	474,840	491,647
	6,263,307	5,235,108
Income (loss) before income taxes and minority interest	(1,086,557)	80,437
Recovery of (provision for) income taxes (Note 5)	247,919	(71,406)
Income (loss) before minority interest	(838,638)	9,031
Minority interest	(19,394)	(7,695)
Net income (loss) for the year	$ (858,032)	$ 1,336
Earnings (loss) per share	$ (.51)	$ –

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year Ended December 31 1976	1975 (As Restated) (Note 2)
Balance, beginning of year as previously reported	$ 5,388,915	$ 5,368,124
Less – Prior years' adjustments (Note 2)	(1,320,901)	(1,301,446)
As restated	4,068,014	4,066,678
Add (deduct) – Net income (loss) for the year	(858,032)	1,336
Balance, end of year	$ 3,209,982	$ 4,068,014

The accompanying notes are an integral part of this statement.

Van Der Hout ASSOCIATES LIMITED AND SUBSIDIARIES
(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1976

ASSETS

	1976	1975 (As Restated) (Note 2)
Current Assets:		
Accounts receivable, less allowance for doubtful accounts of $161,013 (1975 – $75,828) (Note 3)	$ 4,174,275	$ 4,680,840
Sundry receivables	138,916	164,010
Receivable from affiliate	–	194,264
Inventories (Note 4)	9,828,285	8,750,062
Income taxes recoverable	110,682	507,070
Prepaid expenses	91,313	135,193
Total current assets	14,343,471	14,431,439
Property, Plant and Equipment, at cost (Note 6):		
Land	828,909	828,909
Buildings and improvements	2,305,750	2,307,949
Machinery and equipment	8,552,789	8,316,806
	11,687,448	11,453,664
Less – Accumulated depreciation and amortization	4,773,900	4,174,230
	6,913,548	7,279,434
Other Assets	33,679	48,670
	$21,290,698	$21,759,543

The accompanying notes are an integral part of this balance sheet.

Approved on behalf of the Board:

JOHN B. VAN DER HOUT (Director)

SVERRE E. LUNDER (Director)

LIABILITIES

	1976	1975 (As Restated) (Note 2)
Current Liabilities:		
Bank indebtedness (Note 3)	$ 5,630,874	$ 5,121,586
Accounts payable and accrued liabilities	4,654,836	4,290,522
Current portion of long-term debt (Note 6)	148,214	229,414
Total current liabilities	10,433,924	9,641,522
Long-term debt, less current portion included above (Note 6)	683,799	832,850
Deferred income taxes (Note 5)	678,477	952,035
Minority interest	138,408	119,014

SHAREHOLDERS' EQUITY

	1976	1975
Capital stock:		
Authorized:		
1,800,000 Common shares, no par value		
Issued:		
1,681,608 Shares	5,857,142	5,857,142
Contributed surplus	308,488	308,488
Retained earnings per accompanying statement	3,209,982	4,068,014
	9,375,612	10,233,644
Less –		
2,600 Shares held in treasury, at cost	19,522	19,522
	9,356,090	10,214,122
	$21,290,698	$21,759,543

AUDITORS' REPORT

To the Shareholders of Van Der Hout Associates Limited:

We have examined the consolidated balance sheet of VAN DER HOUT ASSOCIATES LIMITED (an Ontario corporation and a subsidiary of Maremont Corporation) AND SUBSIDIARIES as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The consolidated balance sheet as at December 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended, which are presented for comparative purposes only, were examined and reported on by Laventhol & Horwath, Chartered Accountants. For purposes of comparability, the 1975 financial statements have been restated with the concurrence of Laventhol & Horwath.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Van Der Hout Associates Limited and Subsidiaries as at December 31, 1976 and the results of their operations and changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the prior years' adjustments explained in Note 2 to the financial statements.

LAVENTHOL & HORWATH
Chartered Accountants

Toronto, Ontario
February 11, 1977.

ARTHUR ANDERSEN & CO.
Chartered Accountants

6. Long-term debt:

	1976	1975
9½% Mortgage, payable in monthly instalments of $4,880 including interest, due January 18, 1984	$ 300,370	$ 330,081
8 7/16% Debenture, payable in monthly instalments of $9,640 including interest, due March 15, 1978, secured by a floating charge on equipment	144,600	260,280
Note payable to affiliate, bearing interest at the prime bank rate, due July 25, 1978	387,043	387,043
Loan payable without interest due June 1, 1976	–	55,495
6% Promissory note, due April 1, 1976	–	29,365
	832,013	1,062,264
Current portion payable within one year	148,214	229,414
	$ 683,799	$ 832,850

The aggregate repayments required in each of the next five years are as follows:

1977	$148,214
1978	451,588
1979	39,009
1980	42,716
1981	46,773

7. Remuneration of directors and senior officers:

The aggregate remuneration paid by the Company and its subsidiaries to its directors and senior officers for the year ended December 31, 1976 was $274,730 (1975 – $253,528).

8. Commitments:

(a) Long-term leases:
The Company pays annual rentals of approximately $169,000 plus property taxes and insurance under its building leases which expire at various dates up to and including 1980.

(b) Pension plans:
The Company has a pension plan covering salaried employees (instituted June 30, 1975) and another plan covering hourly paid employees of a certain subsidiary (instituted February 1, 1976). The plan covering hourly paid employees has, by definition, no unfunded past service liability. As of December 31, 1976, the unfunded past service liability with respect to the plan for salaried employees amounted to approximately $243,000 (1975 – $269,000). The Company's policy is to provide for current costs as such costs are incurred and to amortize and fund past service costs over a period of fifteen years. In 1976, $142,500 (1975 – $12,500) was provided and is reflected in the consolidated statement of income.

9. Anti-Inflation Act:

The Anti-Inflation Act effective October 14, 1975, provides for the restraint of profit margins, prices, dividends, and compensation. The Company is subject to the Act and the related regulations and in the opinion of management, the Company has no material unrecorded or contingent liability in connection with the aforementioned legislation.

FIVE YEAR COMPARATIVE SUMMARY OF OPERATIONS

	1976	1975*	1974*	1973*	1972*
Net Sales	$30,745,661	$26,791,291	$22,472,206	$21,607,063	$18,764,508
Cost of sales	25,568,911	21,475,746	17,293,407	15,960,340	13,686,133
Gross Profit	5,176,750	5,315,545	5,198,799	5,646,723	5,078,375
Selling general and administrative expenses	5,702,925	4,643,187	3,491,065	2,519,793	2,041,616
Operating Income (Loss)	(526,175)	672,358	1,707,734	3,126,930	3,036,759
Interest expense	560,382	591,921	363,854	102,365	106,879
Income (Loss) from Consolidated Operations Before Income Taxes	(1,086,557)	80,437	1,343,880	3,024,565	2,929,880
Recovery of (provision for) income taxes	247,919	(71,406)	(571,231)	(1,311,192)	(1,477,577)
Income (Loss) from Consolidated Operations	(838,638)	9,031	772,649	1,713,373	1,452,303
Earnings of Gabriel of Canada Limited prior to acquisition	–	–	116,074	818,993	672,276
Minority interest	19,394	7,695	19,334	21,897	21,042
Net Income (Loss)	$ (858,032)	$ 1,336	$ 637,241	$ 872,483	$ 758,985
Earnings (Loss) Per Share	$(.51)	$ –	$.49	$.97	$.87

**As restated per Note 2 to the financial statements.*

NDH